

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 2012-1-E

June 14, 2012

IN RE:)	
Annual Review of Base Rates for Fuel)	SETTLEMENT AGREEMENT
Costs of Progress Energy Carolinas,)	
Incorporated)	
_____)	

This Settlement Agreement is made by and among the South Carolina Office of Regulatory Staff (“ORS”) and Carolina Power & Light Company, d/b/a Progress Energy Carolinas, Inc. (“PEC”) (collectively referred to as the “Parties” or sometimes individually as a “Party”).

WHEREAS, the above-captioned proceeding has been established by the Public Service Commission of South Carolina (“Commission”) pursuant to the procedure established in S.C. Code Ann. § 58-27-865 (Supp. 2011), and the Parties to this Settlement Agreement are parties of record in the above-captioned Docket. There are no other parties of record in the above-captioned proceeding;

WHEREAS, the Parties have varying legal positions regarding the issues in this case;

WHEREAS, the Parties have engaged in discussions to determine whether a settlement would be in their best interest;

WHEREAS, following these discussions the Parties have each determined that their interest and the public interest would be best served by settling matters in the above-captioned case under the terms and conditions set forth below:

1. The Parties agree to stipulate into the record before the Commission the direct and settlement testimony and exhibits of the following witnesses without objection, change, amendment or cross-examination.

A. PEC witnesses:

- (1) Bruce P. Barkley (Direct and Settlement)
- (2) Dewey S. Roberts II (Direct)

B. ORS witnesses:

- (1) Robert A. Lawyer (Direct)
- (2) Leigh C. Ford (Direct)

The Parties submit that they have worked collaboratively to submit testimony in support of this Settlement Agreement as set forth by the Commission's settlement procedures.

2. As a compromise, all Parties adopt, accept, and acknowledge as the agreement of the Parties that:

- A. PEC's cumulative over-recovered base fuel cost balance for the period ending June 30, 2012, is projected to be \$6,596,927.
- B. The appropriate fuel factors for PEC to charge for the period beginning with the first billing cycle in July 2012 extending through the last billing cycle of June 2013 are listed below. These fuel factors include environmental costs and the over-recovered fuel costs.

Class	Base Fuel Cost Component (cents/kWh) ¹	Environmental Fuel Cost Component (cents/kWh)	Total Fuel Costs Factor (cents/kWh)	Increase for RECD ²
Residential	2.695	.050	2.745	2.767
General Service (non-demand)	2.695	.050	2.745	
General Service (demand)	2.695	.000 ³	2.695	
Lighting	2.695	.000	2.695	

¹ As shown in Settlement Agreement Attachment A.

² Residential Service Energy Conservation Discount (RECD) is .7927%.

³ The environmental rate for these customers is 12 cents per kW.

- C. The Parties agree that the fuel factors set forth above are consistent with S.C. Code Ann. § 58-27-865 (Supp. 2011). The Parties further agree that, except as noted below, any challenges to PEC's historical fuel costs recovery for the period ending February 29, 2012, are not subject to further review; however, the projected fuel costs for periods beginning March 1, 2012, and thereafter shall be open issues in future fuel cost proceedings held under the procedure and criteria established in S.C. Code Ann. § 58-27-865.
- D. With regard to plant outages not complete as of February 29, 2012, and outages where final reports (Company, contractor or government reports or otherwise) are not available, the Parties agree that ORS retains the right to review the reasonableness of plant outage(s) and associated costs in the review period during which the outage is completed or when the report(s) become available.
- E. ORS thoroughly reviewed and investigated PEC's nuclear operations during the review period. As shown in ORS witness Ford's Revised Exhibit 2, PEC's nuclear fleet achieved an actual system capacity factor during the review period of 91.4%. PEC achieved this capacity factor notwithstanding the fact that it experienced two refueling outages and two other planned outages during this time period. PEC also experienced several forced outages during the review period. ORS reviewed all outages and questioned the reasonableness of one forced outage.

S.C. Code Ann. § 58-27-865 states that:

There shall be a rebuttable presumption that an electrical utility made every reasonable effort to minimize cost associated with the operation of its nuclear generation facility or system, as applicable, if the utility achieved a net capacity factor of ninety-two and one-half percent or higher during the period under review. The calculation of the net capacity factor shall exclude reasonable outage time associated with reasonable refueling, reasonable maintenance, reasonable repair, and reasonable equipment replacement outages; the reasonable reduced power generation experienced by nuclear units as they approach a refueling outage; the reasonable reduced power generation experienced by nuclear units associated with bringing a unit back to full power after an outage; Nuclear Regulatory Commission required testing outages unless due to the unreasonable acts of the utility; outages found by the commission not to be within the reasonable control of the utility; and acts of God. The calculation also shall exclude reasonable reduced power operations resulting from the demand for electricity being less than the full power output of the utility's nuclear generation system.

During the review period PEC's actual capacity factor was 91.4%. Excluding all planned outage time, PEC's net capacity factor for the review period was 99.2%. The performance standard contained in S.C. Code Ann. § 58-27-865 does not specifically address a situation such as that presented in this case where the utility has managed its nuclear operations well overall, despite experiencing a forced outage that appears to ORS to have been avoidable. Solely for the purposes of this proceeding, the parties have agreed to an over-recovery adjustment of \$800,000 to address PEC's performance in this case. Going forward the parties intend to consider the legislative history of § 58-27-865, discuss its intended purpose and agree to make a good faith effort to recommend the proper nuclear performance standard to be applied in situations such as the one presented in this case.

- F. Except as expressly set forth herein, this Settlement Agreement in no way constitutes a waiver or acceptance of the position of any Party concerning the requirements of S.C. Code Ann. § 58-27-865 in any future proceeding.
- G. The Parties agree to accept all accounting and other adjustments as put forth in the testimony and exhibits of ORS witness Robert A. Lawyer as revised per the Settlement Agreement Attachment B.
- H. PEC agrees to continue to provide to the Parties the following:
 - (1) Copies of the monthly fuel recovery reports currently filed with the Commission and ORS; and,
 - (2) Quarterly forecasts of the expected fuel factor to be set at PEC's next annual fuel proceeding and PEC's historical over/(under)-recovery to date. PEC agrees that it will put forth its best efforts to forecast the expected fuel factor to be set at its next annual proceeding. All Parties agree that these quarterly forecasts will not be admitted into evidence in any future PEC proceedings.
- I. PEC agrees to continue to examine and make adjustments as necessary to its natural gas hedging program in light of the reduced volatility in the domestic natural gas market due to the influx of shale gas reserves. PEC also agrees to provide monthly natural gas hedging reports to the Parties.
- J. Nothing contained in this Settlement Agreement alters, amends, or changes the methodology established for determining the environmental factor for PEC's rate classes as set forth in Paragraphs 3(B) and (C) of the Settlement Agreement filed with and approved by the Commission in Docket No. 2007-1-E.

3. The Parties agree that this Settlement Agreement is reasonable, is in the public interest, and is in accordance with law and regulatory policy.

4. Further, ORS is charged with the duty to represent the public interest of South Carolina pursuant to S.C. Code Ann. § 58-4-10(B) (Supp. 2011). S.C. Code Ann. § 58-4-10(B)(1) through (3) reads in part as follows:

“...‘public interest’ means a balancing of the following:

- (1) concerns of the using and consuming public with respect to public utility services, regardless of the class of customer;
- (2) economic development and job attraction and retention in South Carolina; and
- (3) preservation of the financial integrity of the state’s public utilities and continued investment in and maintenance of utility facilities so as to provide reliable and high quality utility services.”

5. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution in the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

6. This written Settlement Agreement contains the complete agreement of the Parties. There are no other terms or conditions to which the Parties have agreed. This Settlement Agreement integrates all discussions among the Parties into the terms of this written document. The Parties agree that this Settlement Agreement will not constrain, inhibit or impair their arguments or positions held in future proceedings, nor will the Settlement Agreement or any of the matters agreed to in it be used as evidence or precedent in any future proceeding. If the Commission should decline to approve the Settlement Agreement in its entirety, then any

Party desiring to do so may withdraw from the Settlement Agreement without penalty by providing written notice of intent to do so within five (5) working days of notice of the Commission's decision not to approve the Settlement Agreement in its entirety. In the event any Party withdraws under such circumstances, the Settlement Agreement is null and void, each Party shall have the opportunity to present evidence and advocate its position in the proceeding, and the Parties shall work together in good faith to develop and propose a new procedural schedule to put the Parties back in the position they were in prior to the settlement.

7. This Settlement Agreement shall bind and inure to the benefit of each of the signatories hereto and their representatives, predecessors, successors, assigns, agents, shareholders, officers, directors (in their individual and representative capacities), subsidiaries, affiliates, parent corporations, if any, joint ventures, heirs, executors, administrators, trustees, and attorneys.

8. This Settlement Agreement shall be interpreted according to South Carolina law.

9. This Settlement Agreement is and shall be deemed for all purposes to have been prepared for the benefit of and through the joint efforts of the Parties hereto and shall not be construed or interpreted against the Party originating or preparing it.

10. The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any Party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

11. Each numbered or lettered subsection or paragraph herein is for reference only and has no substantive meaning.

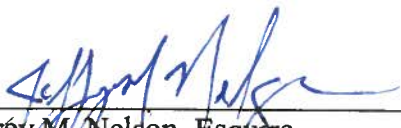
12. This Settlement Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one original and provable copy of this Settlement Agreement.

13. This Settlement Agreement fully represents the entire agreement of the Parties with respect to the matters addressed herein and supersedes all prior conversations, documents, and agreements (express or implied) in Docket No. 2012-1-E. No terms or conditions of this Settlement Agreement may be modified or waived except by an instrument in writing duly signed by or on behalf of each of the Parties.

SIGNATURE PAGES FOLLOW

WE AGREE:

Representing and binding the South Carolina Office of Regulatory Staff



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WE AGREE:

Representing and binding Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc.



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Progress Energy Carolinas, Inc.
Calculation of Base Fuel Component
Docket No. 2012-2-E

Projected Fuel Expense from July 2012 through June 2013	
Cost of Fuel	\$1,518,821,114
System Sales (MWh)	54,285,666
Average Cost (cents/kWh)	2.798
Revenue Difference To be Collected from July 2012 through June 2013	
(Over)/Under-Recovery at June 30, 2012	(\$6,596,927)
Projected S.C. Retail Sales (MWh)	6,391,904
Average Cost (cents/kWh)	(0.103)
Base Fuel Cost Per kWh - Projected Period	
Average Fuel Cost (cents/kWh)	2.798
Revenue Difference (cents/kWh)	(0.103)
Base Fuel Component (cents/kWh)	2.695

Progress Energy Carolinas, Inc.
South Carolina Fuel Cost Computation
March 2011 - June 2012
Docket No. 2012-1-E

	ACTUAL									
	March 2011	April 2011	May 2011	June 2011	July 2011	August 2011	September 2011	October 2011		
Fossil Fuel	\$ 87,771,616	\$ 79,218,826	\$ 90,920,396	\$ 128,801,736	\$ 140,504,497	\$ 131,430,764	\$ 95,451,832	\$ 69,169,558		
Nuclear Fuel	\$ 11,616,900	\$ 12,074,027	\$ 14,317,850	\$ 14,246,942	\$ 14,124,854	\$ 14,037,380	\$ 13,250,856	\$ 14,218,486		
Purchased & Interchange Power	\$ 15,743,094	\$ 16,139,046	\$ 20,390,370	\$ 23,177,751	\$ 30,243,513	\$ 27,151,265	\$ 22,541,072	\$ 13,630,509		
Sub-Total	\$ 115,131,610	\$ 107,431,899	\$ 125,628,616	\$ 166,226,429	\$ 184,872,864	\$ 172,619,409	\$ 131,243,760	\$ 97,018,553		
Less: Intersystem Sales	\$ 6,281,285	\$ 4,626,088	\$ 5,986,196	\$ 12,222,768	\$ 14,499,494	\$ 11,858,774	\$ 8,026,791	\$ 4,912,370		
Total Fuel Costs	\$ 108,850,325	\$ 102,805,811	\$ 119,642,420	\$ 154,003,661	\$ 170,373,370	\$ 160,760,635	\$ 123,216,969	\$ 92,106,233		
Total System kWh Sales Excluding Intersystem Sales	3,994,404,821	3,769,076,894	3,913,731,740	4,946,731,584	5,008,889,151	5,366,065,721	4,628,891,901	4,035,047,820		
S.C. kWh Sales	437,672,999	460,798,163	498,654,087	555,313,219	585,769,521	637,617,833	516,594,988	518,257,546		
S.C. Allocation Factor	0.1096	0.1223	0.1274	0.1123	0.1169	0.1188	0.1116	0.1284		
S.C. Retail Basis of Total Fuel Costs	\$ 11,929,996	\$ 12,573,151	\$ 15,242,444	\$ 17,294,611	\$ 19,916,647	\$ 19,098,363	\$ 13,751,014	\$ 11,826,440		
Amount Billed to S.C. Customers	\$ 11,918,068	\$ 12,546,893	\$ 13,576,010	\$ 15,177,542	\$ 17,812,314	\$ 19,390,563	\$ 15,709,029	\$ 15,759,029		
Deferred Fuel Entry	\$ (11,928)	\$ (26,258)	\$ (1,666,434)	\$ (2,117,069)	\$ (2,104,333)	\$ 292,200	\$ 1,958,015	\$ 3,932,589		
Cumulative Over/(Under) Recovery- Prior Month	\$ (10,418,111)	\$ (10,430,039)	\$ (10,456,297)	\$ (12,122,731)	\$ (14,239,800)	\$ (16,344,133)	\$ (16,051,933)	\$ (4,093,918)		
Company's Accounting Adjustments							\$ 10,000,000	\$		
Cumulative Over/(Under) Recovery	\$ (10,430,039)	\$ (10,456,297)	\$ (12,122,731)	\$ (14,239,800)	\$ (16,344,133)	\$ (16,051,933)	\$ (4,093,918)	\$ (161,329)		

Note (1) - S.C. Allocation Factor= S.C. Retail Sales / Total System Sales

Progress Energy Carolinas, Inc.
South Carolina Fuel Cost Computation
March 2011 - June 2012
Docket No. 2012-1-E

	ACTUAL				ESTIMATED			
	November 2011	December 2011	January 2012	February 2012	March 2012	April 2012	May 2012	June 2012
Fossil Fuel	\$ 89,470,654	\$ 83,779,997	\$ 103,876,461	\$ 104,730,906	\$ 98,637,938	\$ 87,451,078	\$ 94,446,801	\$ 111,522,137
Nuclear Fuel	\$ 10,722,453	\$ 13,847,354	\$ 12,792,136	\$ 9,377,613	\$ 8,304,837	\$ 9,864,715	\$ 11,057,328	\$ 14,845,001
Purchased & Interchange Power	\$ 19,121,523	\$ 15,919,375	\$ 15,325,359	\$ 13,543,938	\$ 22,234,212	\$ 19,611,682	\$ 17,532,685	\$ 19,305,270
Sub-Total	\$ 119,314,630	\$ 113,546,726	\$ 131,993,956	\$ 127,652,457	\$ 129,176,987	\$ 116,927,475	\$ 123,036,814	\$ 145,672,408
Less: Intersystem Sales	\$ 6,513,430	\$ 5,953,031	\$ 4,691,994	\$ 5,287,096	\$ 7,923,318	\$ 9,707,394	\$ 8,908,429	\$ 11,100,226
Total Fuel Costs	\$ 112,801,200	\$ 107,593,695	\$ 127,301,962	\$ 122,365,361	\$ 121,253,669	\$ 107,220,081	\$ 114,128,385	\$ 134,572,182
Total System kWh Sales Excluding Intersystem Sales	3,814,250,787	4,146,804,450	4,561,800,061	4,235,338,555	3,840,900,637	3,831,660,908	3,848,268,559	4,515,593,130
S.C. kWh Sales	446,482,874	440,799,340	553,900,218	491,933,620	396,639,808	514,387,618	455,676,246	548,325,595
S.C. Allocation Factor	0.1171	0.1063	0.1214	0.1161	0.1033	0.1342	0.1184	0.1214
S.C. Retail Basis of Total Fuel Costs	\$ 13,209,021	\$ 11,437,210	\$ 15,454,458	\$ 14,206,618	\$ 12,525,504	\$ 14,388,935	\$ 13,512,801	\$ 16,337,063
Amount Billed to S.C. Customers	\$ 13,579,052	\$ 13,406,939	\$ 16,846,957	\$ 14,962,554	\$ 12,063,157	\$ 15,641,526	\$ 13,857,115	\$ 16,674,581
Deferred Fuel Entry	\$ 370,031	\$ 1,969,729	\$ 1,392,499	\$ 755,936	\$ (462,347)	\$ 1,252,591	\$ 344,314	\$ 337,518
Cumulative Over/(Under) Recovery- Prior Month	\$ (161,329)	\$ 208,702	\$ 2,178,431	\$ 3,570,930	\$ 5,129,003	\$ 4,666,656	\$ 5,919,247	\$ 6,263,561
Company's Accounting Adjustments				\$ 2,137				
ORS Accounting Adjustments				\$ 800,000				
Cumulative Over/(Under) Recovery	\$ 208,702	\$ 2,178,431	\$ 3,570,930	\$ 5,129,003	\$ 4,666,656	\$ 5,919,247	\$ 6,263,561	\$ 6,596,927

Note (1) - S.C. Allocation Factor= S.C. Retail Sales / Total System Sales

Cumulative Over/(Under) Base Fuel Component (per Settlement Agreement A/ Attachment B)	\$ 5,129,003	\$ 6,596,927
Cumulative Over/(Under) Environmental Component (per Audit Exhibit RAL-7)	\$ 367,391	\$ 479,594
Net Cumulative Base Fuel and Environmental Components Over/(Under)- Recovery Balances	\$ 5,496,394	\$ 7,076,521